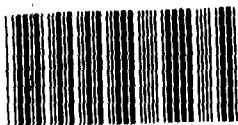


U.S. GENERAL ACCOUNTING OFFICE
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STATEMENT OF
JOHN F. SIMONETTE
ASSOCIATE DIRECTOR
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF THE
INTERNAL REVENUE SERVICE
COMMITTEE ON FINANCE
UNITED STATES SENATE

ON
OFFSET OF FEDERAL TAX RETURNS

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear before you to discuss offset of delinquent debts against Federal tax refunds due to debtors. Before discussing the offset issue, I would like to present the Subcommittee with some background information on the magnitude of debts owed the Federal Government and the efforts underway to stem this growth.

Debts owed the Government are enormous and growing each year, with billions of dollars delinquent. Federal agencies reported that, at the start of fiscal 1982, receivables due from U.S. citizens and organizations exceeded \$180 billion, over \$33 billion of which was delinquent. By the end of fiscal 1982, these amounts had further increased to approximately \$200 billion and \$38 billion, respectively, with nontax delinquencies totaling about \$14 billion.

To stem the continued growth in these numbers, the Congress and GAO have long called for strengthened debt collection. We

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have reported that the Government was not doing an effective job of accounting for and collecting its debts. Recognizing the need for improved financial management, the Administration made debt collection a management priority.

ADMINISTRATION'S EFFORTS TO
IMPROVE DEBT COLLECTION

In response to our work and to congressional interest in improved Government debt collection, the Debt Collection Project was established in August 1979 within the Office of Management and Budget (OMB) for the purpose of identifying and recommending solutions to Government-wide problems which impede agency collection efforts. The Debt Collection Project, which was made up of private and public sector representatives, reviewed Federal agencies' debt collection policies and procedures. The programs reviewed in these agencies accounted for 95 percent of the debt owed the Government. In January 1981, the Project issued its "Report on Strengthening Federal Credit Management" which included a series of recommendations for strengthening credit management and debt collection.

Recognizing the need for improved financial management, the administration made debt collection a management priority. In an April 23, 1981, memorandum, the President directed the heads of executive branch agencies and departments to develop and implement an aggressive debt collection program by:

- Designating an official with responsibility and authority for debt collection. Twenty-four major departments and agencies have designated such an official.
- Reviewing current debt collection issues and preparing action plans for improved debt collection, to be approved by OMB.

--Submitting periodic progress reports to OMB on the status of planned actions.

OMB is responsible for monitoring agency efforts to comply with the President's directive and for providing a focal point in the debt collection area.

PASSAGE OF THE DEBT COLLECTION ACT OF 1982

In addition to establishing the policies governing the debt collection initiative and overseeing agency corrective actions, OMB served as the administration's focal point for the Debt Collection Act of 1982. On April 23, 1981, the Director of OMB, in testimony before the Senate Committee on Governmental Affairs, proposed comprehensive legislation to eliminate certain disincentives in the Government's debt collection process; to make available essential collection tools and techniques commonly used in the private sector; and to provide for increased efficiency and effectiveness in the way the Government grants credit and services and collects its receivables. OMB worked closely with the Congress and on October 25, 1982, the President signed into law the Debt Collection Act of 1982.

Among other things, the act

- allows agencies to disclose information about an individual's debt to credit bureaus except when a debt arises under IRS or SSA regulations;
- authorizes agencies to collect overdue payments from Federal employees through deductions from their paychecks;
- permits agencies to disclose to debt collection contractors current addresses of individuals owing money to the Government;

- authorizes the IRS to disclose to a requesting agency whether an applicant for a Federal loan has a delinquent tax account;
- provides a 10-year period for agencies to collect debts by administrative offset;
- requires agencies to charge a minimum rate of interest, as well as penalties and administrative charges on delinquent nontax debts unless otherwise provided for in contract, statute, or agency regulations; and
- authorizes agencies to contract for debt collection services.

Implementation of the act will undoubtedly increase collections by giving Federal agencies tools already widely used in the private sector.

OFFSET OF FEDERAL TAX REFUNDS

Although significant accomplishments have been made in the debt collection area, continued emphasis is needed to reduce the increase in delinquent debts owed the Federal Government. One means available is the use of offset of delinquent debts against Federal tax refunds due to debtors.

Federal tax refunds are routinely made to many individuals who have not paid debts owed the Government. In March 1979, we reported to the Congress that of a sample of 613 terminated debts totaling \$431,000, up to \$153,000, or 36 percent, could have been collected over a 2-year period by reducing the debtors' tax refunds. We recommended that, on a test basis, delinquent nontax receivables be collected by reducing future income tax refunds due the debtors. Such offset would be made

only after procedures to protect the debtor's rights to due process had been instituted. To protect the debtor's rights to due process the agency referring a debt for offset would be required to

- establish the debts validity by giving the debtor ample opportunity to dispute the Government's claim,
- notify the debtor that the receivable was being transferred to IRS for collection,
- give the debtor an opportunity to request a hearing on the offset, and
- notify the debtor when the debt was collected by offset.

IRS expressed reservations about the desirability and practicality of such a program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws as well as the potential negative effect on the taxpayer withholding system. A proposal in the fiscal 1980 IRS appropriations bill to fund 30 positions for such a test was not adopted.

Several members of Congress, however, were interested in pursuing legislation on this point. In response to a request from the Chairman of the Legislative Appropriations Subcommittee, Senate Committee on Appropriations, we reported in July 1980, that in 1979 alone, the State of Oregon was able to collect by offset from tax refunds over \$2.4 million in delinquent debts at a cost of about \$200,000. While at the same time, establishing strict controls to ensure that debtor's rights to due process are protected and that tax refunds are not

arbitrarily offset. In testimony before the Senate Governmental Affairs Committee on April 23, 1981, the Director of Oregon's Department of Taxation reported that collections for 1980 were \$3.7 million at a cost of less than \$300,000. In supporting this type of offset we wish to emphasize that the necessary safeguards to protect debtors against arbitrary offset actions can and must be instituted, and the offset procedures should be thoroughly tested prior to full implementation.

We believe effective arrangements for using IRS offset to collect nontax debts could be worked out on the basis of interagency agreements between IRS and the Federal agencies wishing to refer debts for offset, with the Attorney General having a consultation role in the development of such agreements. This would clearly mandate IRS to follow through with an offset program to the extent appropriate procedures could be worked out. The interagency agreement would provide a mechanism for resolving due process and other procedural issues. We anticipate that the Attorney General could contribute to resolving differences should the referring agency and IRS be unable to agree on procedures.

We are aware that the AFDC program provides for the collection of delinquent child support payments through use of IRS offset. As with any new program, certain problems are going to occur and must be resolved in order for it to operate in an effective, efficient, and economical manner. Although the AFDC program is for the collection of non-government debts, we believe the lessons learned and problems encountered should be

carefully considered in developing an offset program for the collection of debts owed the Federal Government.

Our support of the IRS offset should not be interpreted as a recommendation that IRS become a debt collection "clearinghouse". Debt collection is the primary responsibility of each Federal agency. It is incumbent upon top management to establish debt collection as a priority and ensure that the initiatives underway and planned are successfully implemented.

This concludes my statement. I will be happy to answer any questions you or other members may have.